

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Westphalia	County Clinton
Fiscal Year End February 28, 2007	Opinion Date July 20, 2007	Date Audit Report Submitted to State August 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

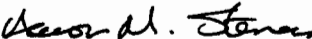
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	License Number 1101024055

**Village of Westphalia  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**February 28, 2007**

Village of Westphalia  
Clinton County, Michigan

February 28, 2007

VILLAGE COUNCIL AND ADMINISTRATION

Mr. Charles Schafer	President
Mr. Mark Schafer	Mayor Pro-Tem
Mr. Dave Boswell	Trustee
Mr. Stan Bauer	Trustee
Mr. Dean Kohagen	Trustee
Mr. Steve Miller	Trustee
Mr. Nort Upson	Trustee
Ms. Sandy Smith	Clerk
Ms. Wendy Thelen	Treasurer

Village of Westphalia

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and  
Members of the Village Council  
Village of Westphalia  
Westphalia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Westphalia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Westphalia's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 20, 2007

## Village of Westphalia

### MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

The following is a discussion and analysis of Village of Westphalia's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 28, 2007. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. Fiscal year 2006-2007 represents the third year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*.

### FINANCIAL HIGHLIGHTS

#### **Government-wide:**

- Total net assets were \$2,092,494.
- Governmental activities net assets were \$1,059,680.
- Business-type activities net assets were \$1,032,814.

#### **Fund Level:**

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$457,829 with \$87,300 being designated for future capital projects.
- The General Fund realized \$289,946 more in revenues and other financing services than anticipated for the fiscal year. The General Fund operations expended \$245,840 more than appropriated.
- Overall, the General Fund balance increased by \$14,356 to \$183,246.

#### **Capital and Long-term Debt Activities:**

- The Village issued new debt in the form of a promissory note, totaling \$176,459.
- The total long-term debt at February 28, 2007 was \$168,440.
- The Village remains well below its authorized legal debt limit.
- The total net change to the capital asset schedule for the primary government was \$545,154.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds.

#### **Government-wide Financial Statements (Reporting the Village as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2006-2007 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village-wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund make up the business-type activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, vehicles, equipment, infrastructure, etc. These values are not included in the fund financial statements.

**Fund Financial Statements (Reporting the Village's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Westphalia include the General Fund, the Major Street Fund, the Local Street Fund, the Equipment Replacement Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. Examples are the Sewer System Fund and the Water System Fund.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

**FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE**

As previously stated, the Village of Westphalia's combined net assets were \$2,092,494 at the end of this year's operations. The net assets of the governmental activities were \$1,059,680; the business-type activities were \$1,032,814.



Village of Westphalia  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
February 28, 2007

**Summary of Net Assets:**

The following summarizes the net assets as of February 28, 2007.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
<b>Assets</b>						
Current and other assets	\$ 445,842	\$ 468,722	\$ 595,988	\$ 586,250	\$ 1,041,830	\$ 1,054,972
Capital assets	518,178	770,291	492,434	447,350	1,010,612	1,217,641
Total assets	964,020	1,239,013	1,088,422	1,033,600	2,052,442	2,272,613
<b>Liabilities</b>						
Current liabilities	10,502	25,294	421	666	10,923	25,960
Noncurrent liabilities	-	154,039	120	120	120	154,159
Total liabilities	10,502	179,333	541	786	11,043	180,119
<b>Net Assets</b>						
Invested in capital assets-						
net of related debt	518,178	601,851	492,434	447,350	1,010,612	1,049,201
Restricted	144,272	146,397	-	-	144,272	146,397
Unrestricted	291,068	311,432	595,447	585,464	886,515	896,896
Total net assets	<b>\$ 953,518</b>	<b>\$1,059,680</b>	<b>\$ 1,087,881</b>	<b>\$ 1,032,814</b>	<b>\$ 2,041,399</b>	<b>\$ 2,092,494</b>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year:

**Changes in Net Assets for the Fiscal Year Ended February 28, 2007**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
<b>Revenues</b>						
Program Revenue:						
Charges for services	\$ 70,151	\$ 167,905	\$ 98,353	\$ 99,381	\$ 168,504	\$ 267,286
Grants and Contributions	69,891	67,452	-	-	69,891	67,452
General Revenues:						
Property Taxes	172,306	181,513	-	-	172,306	181,513
State Shared Revenue	69,574	68,887	-	-	69,574	68,887
Investment Earnings	8,163	12,380	7,399	11,722	15,562	24,102
Miscellaneous	7,198	9,682	-	-	7,198	9,682
Total Revenues	397,283	507,819	105,752	111,103	503,035	618,922

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

**Changes in Net Assets for the Fiscal Year Ended February 28, 2007 - continued**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2007	2006	2007	2006	2007
<b>Expenses</b>						
General Government	\$ 230,337	\$ 257,010	\$ -	\$ -	\$ 230,337	\$ 257,010
Public Safety	11,439	25,739	-	-	11,439	25,739
Public Works	38,247	76,411	-	-	38,247	76,411
Health and Welfare	8,076	14,846	-	-	8,076	14,846
Community and						
Economic Development	8,931	6,486	-	-	8,931	6,486
Recreation and Cultural	14,123	15,991	-	-	14,123	15,991
Other	12,922	5,174	-	-	12,922	5,174
Sewer System Operations	-	-	55,278	68,070	55,278	68,070
Water System Operations	-	-	50,354	98,100	50,354	98,100
<b>Total Expenses</b>	<b>324,075</b>	<b>401,657</b>	<b>105,632</b>	<b>166,170</b>	<b>429,707</b>	<b>567,827</b>
Change in net assets	73,208	106,162	120	(55,067)	73,328	51,095
Net assets, beginning of year	880,310	953,518	1,087,761	1,087,881	1,968,071	2,041,399
Net assets, end of year	<u>\$ 953,518</u>	<u>\$ 1,059,680</u>	<u>\$ 1,087,881</u>	<u>\$ 1,032,814</u>	<u>\$ 2,041,399</u>	<u>\$ 2,092,494</u>

**Governmental Activities:**

The result of 2006-2007 governmental activity was an increase of \$106,162 in net assets to \$1,059,680. Of the total governmental activities' net assets, \$601,851 is invested in capital assets less related debt, \$146,397 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village government. The balance of \$311,432 is listed as unrestricted, having no legal commitment.

**Revenues:**

The three largest revenue categories were property taxes at 36%, charges for services at 33%, and State Shared Revenue at 13%. The Village levied one property tax millage for the year ended February 28, 2007, for general government operations at 8 mills, which is not assigned to any particular activity.

**Expenses:**

General government is the largest governmental activity, expending approximately 64% of the governmental activities total and includes the Legislative, President, Clerk, Treasurer, Assessor, Elections, and Hall and Grounds departments. Public works is the second largest activity, expending approximately 19% of the governmental activities total and includes public street maintenance and refuse collection.

**Business-type Activities:**

Net assets in business-type activities decreased by \$55,067 during the 2006-2007 fiscal year. Of the business-type activities' net assets, \$447,350 is invested in capital assets less related debt. The balance of \$585,464 is listed as unrestricted, having no legal commitment.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

**FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS**

As the Village completed the 2006-2007 fiscal year, its governmental funds reported *combined* fund balances of \$457,829. This was a net increase of \$22,489. The net changes are summarized in the following chart:

	General Fund	Major Street	Local Street	Equipment Replacement	Nonmajor Governmental Fund (Parks and Recreation)
Fund Balance 2/28/2006	\$ 168,890	\$ 67,871	\$ 76,401	\$ 104,183	\$ 17,995
Fund Balance 2/28/2007	\$ 183,246	\$ 74,585	\$ 71,812	\$ 104,896	\$ 23,290
Net Change	\$ 14,356	\$ 6,714	\$ ( 4,589 )	\$ 713	\$ 5,295

**General Fund:**

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 28, 2007, the General Fund reported a fund balance of \$183,246. This amount is an increase of \$14,356 from the fund balance of \$168,890 reported as of February 28, 2006. The 2006-2007 original budget called for a \$19,250 use of fund balance.

**General Fund Budgetary Highlights:**

The Village of Westphalia's budget is a dynamic document. Although adopted in March each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues and other financing sources totaled \$603,546; \$289,946 above the final amended budget. The final amended and original budgets were the same. The largest variances between actual revenues and the final amended budget were in charges for services and note proceeds. The Village did not amend the revenue budget for charges to other funds related to the street maintenance project that commenced during the fiscal year.

The Village's expenditure budget was increased by \$11,000 (less than 4% above the original budget) during the fiscal year. Actual Village expenditures for the fiscal year were \$245,840 over budget. General Fund actual expenditures were \$589,190 and the final budgeted amounts totaled \$343,850, which was a 71% difference.

**Major Street Fund:**

As of February 28, 2007, the Major Street Fund reported a fund balance of \$74,585, an increase of \$6,714 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The Village's expenditure budget was increased by \$25,415 during the fiscal year. Actual Village expenditures for the fiscal year were \$36,041 under budget. Major Street Fund actual expenditures were \$37,851 and the final budgeted amounts totaled \$73,865.

**Local Street Fund:**

As of February 28, 2007, the Local Street Fund reported a fund balance of \$71,812, a decrease of \$4,589 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

**Equipment Replacement Fund:**

As of February 28, 2007, the Equipment Replacement Fund reported a fund balance of \$104,896, an increase of \$713 from the prior year. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of the fiscal year, the Village had invested \$1,049,201, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,514,146 for the primary government. Depreciation charges for the fiscal year totaled \$62,155 for the primary government. Additional information related to capital assets is detailed in Note F of the Financial Statements. Net book value of capital assets at February 28, 2007, was as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business- type Activities</u></b>	<b><u>Total</u></b>
Land	\$ 220,778	\$ -	\$ 220,778
Buildings and improvements, net	344,680	-	344,680
Machinery and equipment, net	67,504	-	67,504
Vehicles, net	1,302	-	1,302
Sewer system, net	-	213,851	213,851
Water system, net	-	233,499	233,499
Infrastructure, net	<u>136,027</u>	<u>-</u>	<u>136,027</u>
<b>Capital assets, net</b>	<b><u>\$ 770,291</u></b>	<b><u>\$ 447,350</u></b>	<b><u>\$ 1,217,641</u></b>

Long-term Debt - As of February 28, 2007, the Village has \$168,440 in outstanding debt.

**Outstanding Debt as of February 28, 2007:**

	<b><u>March 1, 2006</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Feb. 28, 2007</u></b>
Governmental Activities				
2007 Promissory Note				
(Post Office)	<u>\$ -</u>	<u>\$ 176,459</u>	<u>\$ 8,019</u>	<u>\$ 168,440</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note G to the Financial Statements.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2007

**VILLAGE OF WESTPHALIA GOVERNMENT ECONOMIC OUTLOOK**

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Further cuts in revenue sharing funds could affect the services that we provide to the citizens of the Village of Westphalia.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the budget for the 2006-2007 fiscal year. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

**CONTACTING THE VILLAGE**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 587-4434.

## **BASIC FINANCIAL STATEMENTS**

Village of Westphalia

STATEMENT OF NET ASSETS

February 28, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 327,951	\$ 353,530	\$ 681,481
Investments	91,747	235,000	326,747
Receivables	3,400	20,673	24,073
Due from other governmental units	22,551	-	22,551
Internal balances	23,073	(23,073)	-0-
Total current assets	468,722	586,130	1,054,852
Noncurrent assets			
Cash - restricted	-	120	120
Capital assets not being depreciated	220,778	-	220,778
Capital assets, net of accumulated depreciation	549,513	447,350	996,863
Total noncurrent assets	770,291	447,470	1,217,761
<b>TOTAL ASSETS</b>	1,239,013	1,033,600	2,272,613
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	6,066	335	6,401
Accrued liabilities	4,827	331	5,158
Current portion of long-term debt	14,401	-	14,401
Total current liabilities	25,294	666	25,960
Noncurrent liabilities			
Noncurrent portion of long-term debt	154,039	-	154,039
Payable from restricted cash - customer deposits payable	-	120	120
Total noncurrent liabilities	154,039	120	154,159
<b>TOTAL LIABILITIES</b>	179,333	786	180,119
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	601,851	447,350	1,049,201
Restricted for streets and highways	146,397	-	146,397
Unrestricted	311,432	585,464	896,896
<b>TOTAL NET ASSETS</b>	<u>\$ 1,059,680</u>	<u>\$ 1,032,814</u>	<u>\$ 2,092,494</u>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities</b>						
General government	\$ 257,010	\$ 149,858	\$ 4,693	\$ (102,459)	\$ -	\$ (102,459)
Public safety	25,739	-	-	(25,739)	-	(25,739)
Public works	76,411	-	61,159	(15,252)	-	(15,252)
Health and welfare	14,846	10,247	-	(4,599)	-	(4,599)
Community and economic development	6,486	-	-	(6,486)	-	(6,486)
Recreation and cultural	15,991	7,800	1,600	(6,591)	-	(6,591)
Interest	5,174	-	-	(5,174)	-	(5,174)
<b>Total governmental activities</b>	<b>401,657</b>	<b>167,905</b>	<b>67,452</b>	<b>(166,300)</b>	<b>-0-</b>	<b>(166,300)</b>
<b>Business-type activities</b>						
Sewer system	68,070	47,996	-	-	(20,074)	(20,074)
Water system	98,100	51,385	-	-	(46,715)	(46,715)
<b>Total business-type activities</b>	<b>166,170</b>	<b>99,381</b>	<b>-0-</b>	<b>-0-</b>	<b>(66,789)</b>	<b>(66,789)</b>
<b>Total</b>	<b>\$ 567,827</b>	<b>\$ 267,286</b>	<b>\$ 67,452</b>	<b>(166,300)</b>	<b>(66,789)</b>	<b>(233,089)</b>
<b>General revenues</b>						
Property taxes				181,513	-	181,513
State shared revenue				68,887	-	68,887
Investment earnings				12,380	11,722	24,102
Miscellaneous				9,682	-	9,682
<b>Total general revenues</b>				<b>272,462</b>	<b>11,722</b>	<b>284,184</b>
<b>Change in net assets</b>						
				106,162	(55,067)	51,095
<b>Net assets, beginning of the year</b>				<b>953,518</b>	<b>1,087,881</b>	<b>2,041,399</b>
<b>Net assets, end of the year</b>				<b>\$ 1,059,680</b>	<b>\$ 1,032,814</b>	<b>\$ 2,092,494</b>

See accompanying notes to financial statements.



Village of Westphalia

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2007

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and cash equivalents	\$ 116,770	\$ 64,138	\$ 48,604
Investments	20,000	15,000	27,000
Accounts receivable	3,400	-	-
Due from other governmental units	11,170	7,913	3,468
Due from other funds	42,799	-	-
<b>TOTAL ASSETS</b>	<b>\$ 194,139</b>	<b>\$ 87,051</b>	<b>\$ 79,072</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 6,066	\$ -	\$ -
Accrued liabilities	4,827	-	-
Due to other funds	-	12,466	7,260
<b>TOTAL LIABILITIES</b>	<b>10,893</b>	<b>12,466</b>	<b>7,260</b>
<b>FUND BALANCES</b>			
Unreserved			
Designated for future capital projects	87,300	-	-
Undesignated, reported in			
General fund	95,946	-	-
Special revenue funds	-	74,585	71,812
<b>TOTAL FUND BALANCES</b>	<b>183,246</b>	<b>74,585</b>	<b>71,812</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 194,139</b>	<b>\$ 87,051</b>	<b>\$ 79,072</b>

See accompanying notes to financial statements.

Equipment Replacement	Nonmajor Governmental Fund (Parks and Recreation)	Total Governmental Funds
\$ 75,149	\$ 23,290	\$ 327,951
29,747	-	91,747
-	-	3,400
-	-	22,551
-	-	42,799
<u>\$ 104,896</u>	<u>\$ 23,290</u>	<u>\$ 488,448</u>
\$ -	\$ -	\$ 6,066
-	-	4,827
-	-	19,726
<u>-0-</u>	<u>-0-</u>	<u>30,619</u>
-	-	87,300
-	-	95,946
<u>104,896</u>	<u>23,290</u>	<u>274,583</u>
<u>104,896</u>	<u>23,290</u>	<u>457,829</u>
<u>\$ 104,896</u>	<u>\$ 23,290</u>	<u>\$ 488,448</u>

Village of Westphalia

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

February 28, 2007

**Total fund balance - governmental funds** \$ 457,829

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 917,674	
Accumulated depreciation is	<u>(147,383)</u>	
Capital assets, net		<u>770,291</u>

Long-term liabilities are not due and payable in the current period the funds.  
and therefore are not reported as liabilities in the funds. Long-term liabilities  
at year-end consist of:

Note payable	<u>(168,440)</u>
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**Net assets of governmental activities** \$ 1,059,680

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended February 28, 2007

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 181,513	\$ -	\$ -
Licenses and permits	700	-	-
Intergovernmental	73,580	43,821	17,338
Charges for services	158,024	-	-
Interest and rents	5,539	744	2,819
Other	7,731	-	-
TOTAL REVENUES	427,087	44,565	20,157
EXPENDITURES			
Current			
General government	232,787	-	-
Public safety	25,739	-	-
Public works	168	37,851	24,746
Health and welfare	14,846	-	-
Community and economic development	6,486	-	-
Recreation and cultural	4,760	-	-
Other	14,160	-	-
Capital outlay	277,051	-	-
Debt service	13,193	-	-
TOTAL EXPENDITURES	589,190	37,851	24,746
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(162,103)	6,714	(4,589)
OTHER FINANCING SOURCES			
Loan proceeds	176,459	-	-
NET CHANGE IN FUND BALANCES	14,356	6,714	(4,589)
Fund balances, beginning of year	168,890	67,871	76,401
Fund balances, end of year	\$ 183,246	\$ 74,585	\$ 71,812

See accompanying notes to financial statements.

Equipment Replacement	Nonmajor Governmental Fund (Parks and Recreation)	Total Governmental Funds
\$ -	\$ -	\$ 181,513
-	-	700
-	1,600	136,339
-	7,800	165,824
934	3,725	13,761
-	1,951	9,682
934	15,076	507,819
-	-	232,787
-	-	25,739
-	-	62,765
-	-	14,846
-	-	6,486
-	9,781	14,541
-	-	14,160
221	-	277,272
-	-	13,193
221	9,781	661,789
713	5,295	(153,970)
-	-	176,459
713	5,295	22,489
104,183	17,995	435,340
<u>\$ 104,896</u>	<u>\$ 23,290</u>	<u>\$ 457,829</u>

Village of Westphalia

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

**Net change in fund balances - total governmental funds** \$ 22,489

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 269,184	
Depreciation expense	<u>(17,071)</u>	
Excess of capital outlay over depreciation expense		252,113

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Note proceeds	(176,459)	
Note repayments	<u>8,019</u>	<u>(168,440)</u>
<b>Change in net assets of governmental activities</b>		<b>\$ 106,162</b>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

February 28, 2007

	Business-type Activities		
	Sewer System	Water System	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 270,424	\$ 83,106	\$ 353,530
Investments	155,000	80,000	235,000
Accounts receivable	11,835	8,838	20,673
Due from other funds	21,411	-	21,411
Total current assets	458,670	171,944	630,614
Noncurrent assets			
Cash - restricted	78	42	120
Capital assets, net	213,851	233,499	447,350
Total noncurrent assets	213,929	233,541	447,470
<b>TOTAL ASSETS</b>	672,599	405,485	1,078,084
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	177	158	335
Due to other funds	15,235	29,249	44,484
Accrued interest payable	-	325	325
Accrued liabilities	6	-	6
Total current liabilities	15,418	29,732	45,150
Noncurrent liabilities			
Payable from restricted cash - customer deposits payable	78	42	120
<b>TOTAL LIABILITIES</b>	15,496	29,774	45,270
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	213,851	233,499	447,350
Unrestricted	443,252	142,212	585,464
<b>TOTAL NET ASSETS</b>	<u>\$ 657,103</u>	<u>\$ 375,711</u>	<u>\$ 1,032,814</u>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS

Year Ended February 28, 2007

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 47,996	\$ 51,385	\$ 99,381
OPERATING EXPENSES			
Labor charges	10,235	10,397	20,632
Fringe benefits	953	968	1,921
Contractual services	749	41,430	42,179
Supplies	2,166	2,339	4,505
Utilities	2,417	3,180	5,597
Other	21,750	24,502	46,252
Depreciation	29,800	15,284	45,084
TOTAL OPERATING EXPENSES	68,070	98,100	166,170
OPERATING (LOSS)	(20,074)	(46,715)	(66,789)
NONOPERATING REVENUES			
Interest revenue	9,126	2,596	11,722
OTHER FINANCING SOURCES (USES)			
Transfers in	11,231	-	11,231
Transfers out	-	(11,231)	(11,231)
TOTAL OTHER FINANCING SOURCES (USES)	11,231	(11,231)	-0-
CHANGE IN NET ASSETS	283	(55,350)	(55,067)
Restated net assets, beginning of year	656,820	431,061	1,087,881
Net assets, end of year	\$ 657,103	\$ 375,711	\$ 1,032,814

See accompanying notes to financial statements.



Village of Westphalia

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended February 28, 2007

	Business-type Activities		
	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 58,689	\$ 40,177	\$ 98,866
Cash paid for employees	(11,188)	(11,173)	(22,361)
Cash paid to suppliers	(26,819)	(47,987)	(74,806)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>20,682</b>	<b>(18,983)</b>	<b>1,699</b>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Transfer out	-	(11,231)	(11,231)
Transfer in	11,231	-	11,231
<b>NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>11,231</b>	<b>(11,231)</b>	<b>-0-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	155,000	(80,000)	75,000
Maturity of investments	(154,999)	79,999	(75,000)
Interest revenue	9,126	2,596	11,722
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>9,127</b>	<b>2,595</b>	<b>11,722</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>41,040</b>	<b>(27,619)</b>	<b>13,421</b>
Cash and cash equivalents, beginning of year	229,384	110,725	340,109
Cash and cash equivalents, end of year	<u>\$ 270,424</u>	<u>\$ 83,106</u>	<u>\$ 353,530</u>
<b>Reconciliation of operating (loss) to net cash provided (used) by operating activities</b>			
Operating (loss)	\$ (20,074)	\$ (46,715)	\$ (66,789)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities			
Depreciation	29,800	15,284	45,084
(Increase) decrease in accounts receivable	10,693	(11,208)	(515)
(Increase) in due from other funds	(11,231)	7,207	(4,024)
Increase (decrease) in accounts payable	67	(14)	53
Increase in other accrued liabilities	-	192	192
Increase in due to other funds	11,427	16,271	27,698
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><b>\$ 20,682</b></u>	<u><b>\$ (18,983)</b></u>	<u><b>\$ 1,699</b></u>

See accompanying notes to financial statements.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Westphalia is located in Clinton County, Michigan and has a population of approximately 880. The Village of Westphalia operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and a maximum of six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Westphalia. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Westphalia contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**FUND FINANCIAL STATEMENTS - CONTINUED**

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Equipment Replacement Fund is used to account for the financial resources that are used for repairs and replacements of the Village's equipment.
- e. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

**3. Measurement Focus**

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Major Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. During the month of March, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the previous March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. During the month of March, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and at the fund level in the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2007 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All certificates of deposit held by the Village at year-end are classified as investments.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Restricted Cash and Investments**

A portion of the cash and cash equivalents of the Sewer System and Water System Funds are classified as restricted cash and investments because their use is limited. The Sewer System and Water System Fund's restrictions are for the amount of customer deposits held at February 28, 2007.

**8. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Infrastructure - streets	30 years
Buildings and improvements	50 years
Vehicles	8 years
Machinery and equipment	10-15 years
Water and sewer systems	40 years

**9. Property Tax**

The Village of Westphalia bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Westphalia on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 14 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 10.952 mills (approximately \$10.95 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2007, the Village levied 8 mills for general governmental services. The total taxable value for the 2006 levy for property within the Village was \$22,464,904.

**10. Interfund Transactions**

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Compensated Absences

Accumulated vacation and sick pay amounts of the Department of Public Works (DPW) employees are vested (i.e., are payable at termination). As of February 28, 2007, DPW employees had no material accumulated unused vacation and sick amounts recorded in the government-wide financial statements.

Accumulated vacation and sick pay amounts for all other Village employees do not vest (i.e., are not payable at termination) and therefore have not been recorded in the government-wide financial statements.

12. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

## NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of February 28, 2007, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking accounts	\$ 681,601	\$ 697,201
Certificates of Deposit	<u>326,747</u>	<u>327,000</u>
Total	<u>\$ 1,008,348</u>	<u>\$ 1,024,201</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of February 28, 2007, the Village's accounts were insured by the FDIC for \$300,000 the amount of \$724,201 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 28, 2007, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

## NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

The cash and investments referred to above have been reported in either the cash or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2007:

Cash and cash equivalents	\$ 681,481
Cash and cash equivalents - restricted	120
Investments	<u>326,747</u>
	<u>\$ 1,008,348</u>

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - RESTRICTED**

The following summarizes the restricted cash and cash equivalents as of February 28, 2007:

	Customer Deposits
Cash and cash equivalents	
Enterprise Funds	<u>\$ 120</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details primary government interfund receivables and payables at February 28, 2007:

Due to General Fund from:	
Major Street Fund	\$ 12,466
Water System Fund	7,838
Sewer System Fund	15,235
Local Street Fund	<u>7,260</u>
	42,799
Due to Sewer System Fund from:	
Water System Fund	<u>21,411</u>
	<u>\$ 64,210</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Sewer System Fund from:	
Water System Fund	<u>\$ 11,231</u>



Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2007 was as follows:

**Governmental activities**

	Balance Mar. 1, 2006	Additions	Deletions	Balance Feb. 28, 2007
Capital assets not being depreciated:				
Land	\$ 220,778	\$ -	\$ -	\$ 220,778
Construction in progress	<u>23,857</u>	<u>269,184</u>	<u>293,041</u>	<u>-0-</u>
Total capital assets not being depreciated	244,635	269,184	293,041	220,778
Capital assets being depreciated:				
Infrastructure - streets	148,392	-	-	148,392
Buildings and improvements	70,982	293,041	-	364,023
Vehicles	63,508	-	-	63,508
Machinery and equipment	<u>120,973</u>	<u>-</u>	<u>-</u>	<u>120,973</u>
Total at historical cost	403,855	293,041	-0-	696,896
Less accumulated depreciation for:				
Infrastructure - streets	( 7,419 )	( 4,946 )	-	( 12,365 )
Buildings and improvements	( 16,947 )	( 2,396 )	-	( 19,343 )
Vehicles	( 59,599 )	( 2,607 )	-	( 62,206 )
Machinery and equipment	<u>( 46,347 )</u>	<u>( 7,122 )</u>	<u>-</u>	<u>( 53,469 )</u>
Total accumulated depreciation	<u>( 130,312 )</u>	<u>( 17,071 )</u>	<u>-0-</u>	<u>( 147,383 )</u>
Net capital assets being depreciated	<u>273,543</u>	<u>275,970</u>	<u>293,041</u>	<u>549,513</u>
Capital assets, net	<u>\$ 518,178</u>	<u>\$ 545,154</u>	<u>\$ 293,041</u>	<u>\$ 770,291</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 1,975
Public works	13,646
Recreation and cultural	<u>1,450</u>
Total depreciation expense	<u>\$ 17,071</u>

**Business-type activities**

	Balance Mar 1, 2006	Additions	Deletions	Balance Feb. 28, 2007
Capital assets being depreciated:				
Sewer system	\$ 1,192,006	\$ -	\$ -	\$ 1,192,006
Water system	<u>622,107</u>	<u>-</u>	<u>-</u>	<u>622,107</u>
Total at historical cost	1,814,113	-0-	-0-	1,814,113

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Business-type activities - continued**

	Balance Mar 1, 2006	Additions	Deletions	Balance Feb. 28, 2007
Less accumulated depreciation for:				
Sewer system	\$( 948,355 )	\$( 29,800 )	\$ -	\$( 978,155 )
Water system	( 373,324 )	( 15,284 )	-	( 388,608 )
Total accumulated depreciation	( 1,321,679 )	( 45,084 )	-0-	( 1,366,763 )
Net capital assets - business-type activities	\$ 492,434	\$( 45,084 )	\$ -0-	\$ 447,350

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 28, 2007:

	Balance Mar. 1, 2006	Additions	Deletions	Balance Feb. 28, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
2007 Promissory Note (Post Office)	\$ -0-	\$ 176,459	\$ 8,019	\$ 168,440	\$ 14,401

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**

Promissory Note

\$176,458 Promissory Note dated July 28, 2006, for the construction of the post office building, due in monthly installments ranging from \$1,076 to \$1,870 through July 28, 2016, with interest of 5.05 percent, payable monthly.

\$ 168,440

The annual requirements to pay the debt principal and interest outstanding for the promissory note are as follows:

Year Ending February 28/29,	Primary Government	
	Principal	Interest
2007	\$ 14,401	\$ 8,189
2008	15,125	7,465
2009	15,931	6,659
2010	16,756	5,834
2011	17,624	4,966
2012-2016	<u>88,603</u>	<u>10,367</u>
	<u>\$ 168,440</u>	<u>\$ 43,480</u>

## NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE H: RETIREMENT PLAN****Plan Description**

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

**Annual Pension Cost**

For year ended February 28, 2007, the Village's annual pension cost of \$8,947 for the plan was more than the Village's actuarially estimated annual contribution of \$7,440. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

**Three (3) year trend information**

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 213,080	\$ 233,000	\$ 253,105
Actuarial accrued liability (AAL) (entry age)	255,620	282,201	290,930
Unfunded AAL	42,540	49,201	37,825
Funded ratio	83 %	83 %	87 %
Covered payroll	78,877	81,253	80,187
UAAL as a percentage of covered payroll	54 %	61 %	47 %

	Year Ended February 28,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 6,523	\$ 6,935	\$ 8,947
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

**NOTE I: RISK MANAGEMENT**

The Village is exposed to various risks of loss including accidental death, dismemberment, disability, employer's liability, errors and omissions, and workers' compensation for which the Village carries commercial insurance.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended February 28, 2007, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
President	\$ 10,500	\$ 12,495	\$ 1,995
Treasurer	3,550	3,563	13
Health and welfare			
Ambulance	8,000	14,846	6,846
Capital outlay	15,000	277,051	262,051
Debt service	-	13,193	13,193

**NOTE K: FUND EQUITY RESERVES AND DESIGNATIONS**

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures/expenses or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes. These amounts have been recorded at the fund level for governmental funds only to indicate management's plans for these funds.

As of February 28, 2007, a portion of the General Fund fund balance had been designated in the amount of \$87,300 for future capital projects.

**NOTE L: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 28, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Streets and highways	
Major streets	\$ 74,585
Local streets	<u>71,812</u>
	<u>\$ 146,397</u>

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

**NOTE M: RESTATEMENT OF NET ASSETS**

The following restatements of net assets were made during the year, which were the result of corrections of accounting errors. These restatements were reported as changes to beginning net assets. The effect on operations and other affected balances for the current and prior period are as follows:

PROPRIETARY FUNDS

Sewer System Fund net assets as of February 28, 2006	\$ 645,488
Understated amounts due from other funds	<u>11,332</u>
Restated Sewer System Fund net assets as of February 28, 2006	<u>\$ 656,820</u>
Water System Fund net assets as of February 28, 2006	\$ 442,393
Understated amounts due to other funds	<u>( 11,332 )</u>
Restated Water System Fund net assets as of February 28, 2006	<u>\$ 431,061</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes	\$ 167,000	\$ 167,000	\$ 181,513	\$ 14,513
Licenses and permits	500	500	700	200
Intergovernmental - State	60,000	60,000	73,580	13,580
Charges for services	7,500	7,500	158,024	150,524
Interest and rents	2,600	2,600	5,539	2,939
Other	35,000	35,000	7,731	(27,269)
<b>TOTAL REVENUES</b>	<b>272,600</b>	<b>272,600</b>	<b>427,087</b>	<b>154,487</b>
<b>EXPENDITURES</b>				
Current				
General government				
Legislative	6,100	11,100	6,750	4,350
President	7,000	10,500	12,495	(1,995)
Clerk	17,600	17,600	16,931	669
Treasurer	3,550	3,550	3,563	(13)
Assessor	200	200	-	200
Elections	1,100	1,100	-	1,100
Hall and grounds	208,000	208,000	193,048	14,952
Total general government	243,550	252,050	232,787	19,263
Public safety				
Police department	13,000	13,000	11,639	1,361
Fire department	14,100	14,100	14,100	-0-
Total public safety	27,100	27,100	25,739	1,361
Public works				
Refuse collection	4,400	4,400	168	4,232
Health and welfare				
Ambulance	8,000	8,000	14,846	(6,846)
Community and economic development				
Planning commission	6,900	6,900	6,486	414
Zoning commission	500	500	-	500
Total community and economic development	7,400	7,400	6,486	914
Recreation and cultural				
Parks and recreation	2,500	5,000	4,760	240

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Other				
Audit fees	\$ 6,500	\$ 6,500	\$ 5,900	\$ 600
Legal fees	4,800	4,800	968	3,832
Miscellaneous	13,600	13,600	7,292	6,308
Total other	24,900	24,900	14,160	10,740
Capital outlay	15,000	15,000	277,051	(262,051)
Debt service	-	-	13,193	(13,193)
TOTAL EXPENDITURES	<u>332,850</u>	<u>343,850</u>	<u>589,190</u>	<u>(245,840)</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(60,250)	(71,250)	(162,103)	(91,353)
OTHER FINANCING SOURCES				
Note proceeds	-	-	176,459	176,459
Transfers in	41,000	41,000	-	(41,000)
TOTAL OTHER FINANCING SOURCES	<u>41,000</u>	<u>41,000</u>	<u>176,459</u>	<u>135,459</u>
NET CHANGE IN FUND BALANCE	(19,250)	(30,250)	14,356	44,106
Fund balance, beginning of year	168,890	168,890	168,890	-0-
Fund balance, end of year	<u>\$ 149,640</u>	<u>\$ 138,640</u>	<u>\$ 183,246</u>	<u>\$ 44,606</u>



Village of Westphalia

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 40,000	\$ 40,000	\$ 43,821	\$ 3,821
Charges for services	4,000	4,000	-	(4,000)
Interest	500	500	744	244
TOTAL REVENUES	44,500	44,500	44,565	65
EXPENDITURES				
Current				
Public works				
Administrative	29,850	29,850	17,481	12,369
Construction	-	14,105	14,105	-0-
Street maintenance	16,900	28,210	6,265	21,945
Traffic service maintenance	1,700	1,700	-	1,700
TOTAL EXPENDITURES	48,450	73,865	37,851	36,014
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,950)	(29,365)	6,714	36,079
Fund balance, beginning of year	67,871	67,871	67,871	-0-
Fund balance, end of year	<u>\$ 63,921</u>	<u>\$ 38,506</u>	<u>\$ 74,585</u>	<u>\$ 36,079</u>

Village of Westphalia

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 20,000	\$ 20,000	\$ 17,338	\$ (2,662)
Interest	600	600	2,819	2,219
Miscellaneous	1,500	1,500	-	(1,500)
TOTAL REVENUES	22,100	22,100	20,157	(1,943)
EXPENDITURES				
Current				
Public works				
Administrative	5,750	5,750	11,099	(5,349)
Construction	2,500	2,500	-	2,500
Street maintenance	20,700	20,700	13,647	7,053
TOTAL EXPENDITURES	28,950	28,950	24,746	4,204
EXCESS OF REVENUES (UNDER) EXPENDITURES	(6,850)	(6,850)	(4,589)	2,261
OTHER FINANCING SOURCES				
Transfers in	20,000	20,000	-	(20,000)
NET CHANGE IN FUND BALANCE	13,150	13,150	(4,589)	(17,739)
Fund balance, beginning of year	76,401	76,401	76,401	-0-
Fund balance, end of year	\$ 89,551	\$ 89,551	\$ 71,812	\$ (17,739)

Village of Westphalia

Equipment Replacement Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ 1,300	\$ 1,300	\$ 934	\$ (366)
EXPENDITURES				
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>221</u>	<u>1,779</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(700)	(700)	713	1,413
Fund balance, beginning of year	<u>104,183</u>	<u>104,183</u>	<u>104,183</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 103,483</u></u>	<u><u>\$ 103,483</u></u>	<u><u>\$ 104,896</u></u>	<u><u>\$ 1,413</u></u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS**

To the Honorable Mayor and  
Members of the Village Council  
of the Village of Westphalia

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Westphalia's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

## PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONTINUED

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Village of Westphalia. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Village's annual financial statements and notes to the financial statements in accordance with GAAP. The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Village consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described below to be material weaknesses in internal control over financial reporting.

### DETERMINATION OF ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

During the course of our audit, we have annually performed a search for unrecorded receivable and payable amounts. As a result of that search, journal entries were suggested to the Village's management for entry into the general ledger. In many instances, the suggested receivable and payable amounts would be considered material to the Village's financial statements.

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Part of that external financial reporting process is determining the amounts due to the entity as of year-end (i.e., accounts receivable) and amounts due from the entity as of year end (i.e., accounts payable). As a result, a government's ability to prepare financial statements in accordance with generally accepted accounting principles has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

Responsibility for the fair presentation of the Village's financial statements, including the amounts and disclosure within the financial statements, rests with the Village's management. The Village should establish sufficient internal controls to assure that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

We recommend the Village make determinations of accounts receivable and accounts payable amounts by fund as part of their year-end closing procedures. Documentation supporting the receivable and payable amounts recorded in the general ledger should be retained for audit purposes.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

### VIOLATION OF MUNICIPAL FINANCE ACT

During our review of loan documentation and discussions with management, it was noted that the Village was in violation of the Revised Municipal Financing Act (Act 34 of 2001). The Village is required to annually submit its qualifying statement with the Michigan Department of Treasury and obtain qualified status prior to issuing municipal securities.

We recommend that the Village annually complete its qualifying statement for submission with the Michigan Department of Treasury.

### VIOLATION OF BUDGETING ACT

As noted in the financial statements, some of the activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund. This issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management and Members of the Village Council of the Village of Westphalia, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney P.C.*

ABRAHAM & GAFFNEY P.C.  
Certified Public Accountants

July 20, 2007